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MUNICIPAL OWNERSHIP AS A FORM OF GOVERNMENTAL CONTROL

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In the eighteenth century theories of democracy were in the nature of protest against government regulation and control; these theories found expression in political and economic doctrines of *laissez faire*. To-day the situation is reversed. Having succeeded in reducing government to forms of political responsibility there has been a gradual increase in the demand for the exercise of federal and state control. A summary statement of the successive steps in this evolution may serve to bring the present situation into clearer light. They appear about as follows:

(1) Government regulation of matters of business by the early establishment of the principle of a protective tariff and by the organization of a federal bank.

(2) The granting of direct aid to commerce and transportation.

(3) Federal regulation and control over the foreign trade and the shipping interest of the East by federal embargo and non-interference Acts, thus forcing New England and its economic institutions into allignment with prevailing national ideals of internal improvement.

(4) Federal interference with the social and economical institutions of the South, compelling a complete industrial reorganization there.

(5) The enactment of laws, state and federal, the motive to which has been the more rapid development of national resources by increased grants of corporate privileges, market monopolies, etc., the net result of which has been to build up great capitalistic and labor combines that latterly have been able directly or indirectly to control practically every branch of business.

Thus, employing agencies of government as a means of giving

direction to investment and private undertaking, the transition from economic individualism, as it existed one hundred years ago, to an economy based on group activity and high centralized administrative control, as it exists to-day, has been rapid. We have reached a state of social and industrial organization in which, from motives of self-interest, nearly all classes combine in making political demands for a still stronger hand on the part of the government in the exercise of control. Capitalists, enjoying franchises and privileges, ask that the integrity of their corporate estates and capitalized incomes may be guaranteed; laborers, having organized for mutual advantage in making contracts with capital for wages, demand that the hours and conditions of labor may be regulated; creditors and investors contend for public inspection and for legislation giving them added facilities for control over corporate agents; beneficiaries of trusts would have a more strict law for institutional trustees; independent civic societies are seeking prohibitive, regulatory, and mandatory legislation with respect to public education, child labor, and other measures for social betterment and looking toward a better adjustment to the new order of things; citizens as a whole, on the grounds of general welfare, urge increased government action prohibiting monopoly, regulating forms of association and providing a more effective means for group control. The phrase "The Trusts" suggests at once a condition of capitalistic organization and private monopoly advantage as well as a subject with respect to which increased powers of government are to be used.

How are these enlarged powers of government to be employed? By what means may we best retain the benefits of broad co-operation and at the same time direct and control group activity for great common good? It is only with respect to the method of accomplishing this end that our recognized political leaders and political platforms are at variance. In matters of legislation, conservatives would "stand pat," claiming adequate remedy in a better enforcement of the present law. Among those less conservative, one national leader would have enacted radical legislation looking toward public regulation of "the Trust" and restricting inheritances. Another would reduce monopoly advantage by the abolition of market constraint and would increase the possibilities of government control by limiting and restricting corporate franchises. Another sees no remedy adequate to cope with centralized capitalistic influence over

interstate public service activities short of government ownership. Still another argues for a socialistic state.

Reasoning from similar conditions on questions of local welfare, measures are proposed for increasing the activities of municipal government among which both the doctrine and the practice of public ownership has been fast gaining ground. With respect to the municipalization of public service activities there are three distinct schools of opinion: The first, and in most cities the predominant group, we may call conservative—clinging to a modified form of the ancient doctrine of *laissez faire* in defense of the present order of things, a second holds that in circumstances where the public welfare demands it, the cities should take over public service enterprises, as has been done in the cases of the subway in New York and the gas works in Philadelphia, for purposes of exercising proprietary control, but for political reasons should not attempt to operate them, a third school insists on both public ownership and operation.

For purposes of proselyting, both argument and illustration are arbitrarily chosen. Each school proceeds from an assumed premise of public welfare. Those opposed to the municipal ownership of public service enterprises point to the prevalence of political graft; to increased patronage; to increased inducement to bribery and electoral corruption; to inevitable political appointments—all of which are opposed to efficiency and economy of service. Those who advocate municipal ownership argue that an increase in functions will increase public interest in government, will carry with it a choice based on fitness that is equal to the new and increased responsibility; that the present inducement to use corporate influence on legislative and judicial bodies will in a large measure be removed; that the public service will be improved because it will be more responsive to public demands; that public charges will be reduced because they will be laid on the basis of cost of operation instead of being laid on the principal of "what the traffic will bear," as is the case when these activities are performed by private corporations. In each case the conclusion reached is an absolute one. The solution offered is regarded as specific—as if there could be no alternative or doubt.

The Question of Success or Failure of Municipal Industry a Conditional One

The fact that success or failure of such enterprise is entirely relative, and that this relation is one which has to do with administrative conditions, seems to have been entirely overlooked in the controversy. Assuming that a municipal industry may be managed with the same economy, efficiency, and fidelity as a private industry, even then the question as to whether the city should embark on a particular enterprise is to be determined by conditions. From the point of view of public welfare the citizen must consider: (1) whether, after including interest charges on capital in the cost of the service, the price to the public of the same service may be materially reduced; (2) assuming that there would be no reduction in charges to the public for service rendered, will the control obtained over the enterprise which may be secured by public ownership be adequate reason for the change?

To state the case conversely: assuming that the actual cost to the private corporation of rendering service (including a fair return on capital) is less than the price charged to the public, then the questions for the citizen to answer before he accepts the conclusion of advocates of public ownership are: (1) Can the enterprise be as economically and efficiently managed under municipal authorities? (2) If it is conceded that it may be as economically and efficiently managed, will the charges for service be materially reduced? (3) In case the price may not be materially reduced, will public ownership render the service more responsive to legitimate public demands and contribute more to the convenience of the city as a whole? If these questions be answered in the negative, then it were better to retain private ownership and operation. But there is still another question that is avoided by this assumption: Is the government so organized and the business of the city so controlled that an economical and efficient administration of the functions may be insisted on and enforced?

In each case presented the question as to whether a city should own, or own and operate, is not to be answered by *a priori* reasoning and arbitrarily, but in relation to two factors: first, what are the conditions precedent to the successful administration, and, sec-

ond, are these conditions present in the city which has under consideration the particular municipal venture?

Conditions Precedent to Successful Ownership and Operation of Enterprises

Considered administratively, the elements of successful management of municipal enterprise are the same as the elements of successful management of private enterprise. In each are the same problems of capital cost, the same problems of construction and equipment, the same questions to be dealt with in operation and maintenance. The differences are not differences in principles of administration, but differences in methods of control and in methods of distribution of benefits. The methods of control over public enterprise relate themselves to political appointment; in private enterprise they relate themselves to personal contracts. In each, however, intelligent control depends on the regular means of obtaining information as to the efficiency of the service and the economy of operation—methods which will also require personal responsibility for results.

Public enterprise is capitalized, maintained, and operated for public gain; private enterprise is capitalized, maintained, and operated for private gain. In public enterprise the distribution of gains to citizens is in the form of a lower price or better service rendered; in the private undertaking gains take the form of surplus and are distributed to the stockholders as dividends. While, therefore, the financial scale by which distribution is measured is a different one, the elements which go to make administration successful and the standards for measuring the quantitative administration results or gains to be distributed are exactly the same, viz: Economy, efficiency, and fidelity of management; in each case administrative questions revolve about these three categories.

If the citizen ask himself the question as to whether his municipality may succeed in the management of a given industry, the answer must depend on whether or not this particular municipality may procure agents who will manage the industry with economy, efficiency, and fidelity, and not on what some other city has accomplished. What assurance have citizens that the proposed undertaking will be so managed? This assurance must lie in the same

principle of government that is applied by the Standard Oil Company or by any well managed business corporation. Some provision must be made not only for procuring a type of intelligence in management competent to exercise the sort of discretion required, but also for a complete and effective means of obtaining information necessary to such discretion in the exercise of administrative control by the officers having the business in hand. There must likewise be provisions made for bringing home to citizens at large the results of management in order that official responsibility may be enforced through the election of a board of aldermen or a chief executive.

The problem of intelligent and efficient municipal ownership and operation of industry is a problem of the same kind as that of intelligent and efficient government. It differs only in this, that in the industries the results of mismanagement or the results of misjudgment are subject to more exact measurement by well-established and well-defined business standards and may be brought into favorable or unfavorable comparison with results obtained through private organizations.

The Problem of Intelligent Control

Analytically the prerequisites of intelligent administrative control may be stated as follows: (1) An organization by means of which managing competence may be secured; (2) a means of obtaining accurately and currently the data necessary to the exercise of intelligent judgment with respect to questions of administration; (3) a means for enforcing individual responsibility in the service.

Managing competence must in a large measure come through experience. To procure a successful and experienced manager, or retain such a manager when developed, and at the same time provide the means whereby the general policy may be made to respond to demands of citizens or stockholders, is the underlying principle of efficiency in corporate organizations. This principle has been regarded as of highest importance in private business, and in its development there has been evolved a highly centralized executive responsibility. With a highly centralized executive those who are competent have been retained as a matter of executive advantage. When, in response to a change in stockholding policy, the chief

executive officer has been removed or supplanted by another, the new president of the company, in his own interest, may retain any and all of the former departmental heads in order that he may avail himself of the best experience in the successful prosecution of the enterprise. Being held to strict account for administrative results, he has not filled the ranks of the company with his own friends, for the reason that such a course would have worked his own destruction. In any large corporation, the president's success must be attained through his subordinates, and being constantly measured by standards of economy and efficiency, certain it is that his reputation for success will not be enhanced by supplanting an old departmental head by some one less competent.

The trend of American municipalities in charter-making has been to follow this principle of private corporate organization. The great defect in municipal administration has not lain in failure to make provision for the exercise of executive powers, but in the lack of means in the hands of a chief executive for determining the economy, efficiency, and fidelity with which operative departments of government are managed. Not having this intelligence and there being no provision made whereby the citizen may hold the chief executive to strict account, the tendency has been to extend political influence beyond the chief executive himself and include the personnel even of industrial department activities within the patronage to be dispensed by the party boss.

Turning now to the second essential, there are two general branches of corporate service by means of which those in responsible administrative positions can keep themselves informed with respect to the doings, economy, efficiency, and fidelity of their subordinates. These two arms of administration are inspection and accounting. When the business has come to be so large that the one at the head may not have immediate contact with its every detail, intelligent management requires that complete and accurate information be regularly brought to the attention of administrative heads through branches of the organized service, *i. e.*, through subordinates. So far as the results may be numerically and financially stated this information may be furnished by means of a well-devised system of administrative accounts and statistics. So far as information has to do with the quality of the materials furnished, with service performed, with the physical condition of properties, with the number of em-

ployees actually in the service of each department, with the attitude of subordinates toward their work, and their fidelity toward the institution in whose service they are employed, the accounts must be supplanted by inspection.

These two branches or arms of administrative control (independent of each other, but each responsible to the executive head) are the means by which the most difficult, complex, and widely extended corporate activities are intelligently directed. Without these two branches of the service effectively organized, large corporations would fall a victim to their own impotence and incapacity. In order that a system of accounts may be adapted to such a controlling purpose, adequate provisions must be made for an accurate record of all the varied details of the business, as well as the collection and summarization of these data about the problems concerning which those in controlling position are required to think. A system of accounts which falls short of this mark does not measure up to administrative needs. Inspection as a branch of control must cover every physical and operative relation, which does not come under the personal scrutiny of the executive, or which, owing to its nature, may not be regularly and promptly reported in the accounts.

Defective Administrative Control in Cities

Administration comprehends two distinct subjects of controlling intelligence: (1) That which pertains to property and funds, and (2) that which pertains to service rendered and operation. In the American municipality great care has been exercised to obtain a strict accounting for funds. Every caution has been drawn around monetary receipts and disbursements, but with this the accounting has practically ended. In but few municipalities (and these within the last few years) has any attempt been made to introduce accounts which will reflect economy, efficiency, and fidelity of management. Few have attempted to keep an account even of properties. In the great cities, like New York, Philadelphia, and Boston, there is no way in which the chief executive may inform himself accurately and regularly on questions of current business with respect to the water departments, the cost to the city per kilowatt of electric light manufactured at municipal plants, or the cost of operating other municipal

enterprises. How may he intelligently think about matters of economy and operative efficiency in these departments? How may he know whether the city is charging too little or too much for water? How may he know whether the head of the department is supplying water to certain large users who can afford to be generous toward the city's employees without adequate compensation being made for the same to the city? How may he know if water rents are properly collected if only cash receipts are reported? How may the head of the department himself know whether the pumping or storing is being economically done? Whether adequate provisions are being made to keep the mains and reservoirs in repair. In so far as he has an intelligent basis for administrative control, this comes through inspection and not through operative accounts and statistics. By methods of inspection he may keep the property in running condition, but he may know little or nothing about questions of economy and may obtain only a half view on questions of efficiency. Were private corporations to rely on similar methods of administrative control, they would be as loosely managed and as incompetently manned as are municipal industries.

Certain cities have recently responded to demands for accounts and reports by means of which administrative results may be shown. Some of these, however, are making little or no use of these accounts after they have been introduced. The financial operative results are not being co-ordinated with physical operating facts, the outcome being that the people know little more about the affairs of the city than before such accounts were endorsed. The fact that the operating cost of water is \$3,000,000 per year, gives little information, either to the citizen or to the official, more than might be obtained by the old method, which reported \$5,000,000 per annum had been disbursed by the department. The only difference in the form of statement is that the operation account clearly distinguished current expenses from betterments. But to make \$3,000,000 intelligible, either to the administration or to the citizen, this amount must be divided between the cost of pumping and storage and the cost of distributing; more than this, every division of cost must be interpreted in terms of some standard of judgment such as gallons produced, and, so far as possible, this result must be classified by districts or stations or other operative groups for purposes of showing administrative relations.

If need be, as a part of management and as a means of determining administrative facts to be reported, there should be meters put on the pumping and distributing mains. Some method should be applied for determining whether, and where, there is an excessive wastage; what the amount pumped at each station; what the amount distributed through each main; in whose official district the wastage is large, etc. The administrative bearing of such information does not end with fixing responsibility, but enables the officer in control to think whether the rates charged are adequate, and to efficiently direct the management in the interest of economy. Until some plan is adopted by cities by means of which ordinary intelligence may be exercised in the management of municipal affairs it would be worse than foolish for a city to attempt to manage industry and to compete with private corporations offering to perform public service.

Another consideration which has to do with the enforcement of responsibility: Assuming that adequate method be provided whereby economy, efficiency, and fidelity of service may be established, and that this method may be such that every one in responsible position may be confronted with his own record, it is important to know whether or not executive control may be enforced. It has been noted before that private and public enterprises bear this marked difference: that private employment is by contract; that political employment is usually by election or appointment. This difference has a direct bearing on administrative discipline. To make the municipal problem more complicated, civil service reform measures have been interposed which in some instances practically render responsible heads of departments and the chief executive helpless in the face of a combination of inefficient municipal employees. Not having a method of account by means of which executive and subordinate responsibility may be protected, as well as enforced, the chief of the administration, as well as departmental heads, having no claims on which they may stand before the people other than those of partisan character, the remedy for the spoils of patronage has been sought in measures practically taking away from those in directing position the power of appointment and removal with the necessary disciplining essential to control over the personnel of subordinates in the service.

But lack of means necessary to the enforcement of the responsibility is not alone applicable to subordinates. The heads of divisions,

even the heads of departments, may not be held to an intelligent responsibility for operative results. About the only information which comes regularly to the mayor has little or nothing to do with the administrative duties of his office. He is in a position to be promptly confronted with complaints or refusal to perform acts demanded of subordinates by a political boss, or to have heads of departments convicted of offensive partisanship, but so far as the manner in which the department or municipal activity is managed, he has little to show by way of defense, nor has the mayor, as chief executive, adequate data for judgment on issues presented.

The same situation prevails with respect to the responsibility of the mayor to the people. Being held legally responsible for the official acts of heads of divisions of the service, and for knowledge with respect to the doings of each department, he not only does not have before him the information essential to intelligent judgment on matters of public business, but he is unable to render an intelligent report of his own doings. He may not even act intelligently on the annual budget. In consequence the mayor falls victim to the shifting fortunes of the political boss whose creature he is made, or having been elected independently of party, is swept aside by a wave of popular prejudice raised on an issue of duty without anything to show for conscientious service rendered. So long as this condition prevails municipalities are not in a position intelligently to undertake the ownership and operation of industries.

Conclusion

Intelligent ownership requires that there may be an intelligent method whereby the duties and responsibilities of proprietorship may be performed. Even as owner of a gas plant company without operation, there should be required such an account of stewardship and such an inspection as will inform the city official and the citizen whether or not the plant in the possession of the private corporation is being adequately maintained or, if not adequately maintained, whether an adequate reserve is being made for depreciation. A municipality which would own and operate an industry has the problem of proprietorship compounded by all of the problems of operation and all the problems of service.

Just so soon as cities provide the means for intelligent control,

for the protection as well as the enforcement of managing responsibility, for the reward of the efficient and the faithful and the degradation of the inefficient and the time-serving civic infidel, just so soon will it be prepared to undertake functions now performed by private corporations and to perform these functions in a manner not only creditable to themselves but in harmony with the highest welfare of the people. In the meantime the evils to be feared or which have been realized in municipal ownership will have to be balanced against evils complained of at the hands of public-service-private corporations and, as in Philadelphia, the people will continue to flee from evils known, in a system in force, to evils unknown, in a system which offers itself as a temporary expedient. The public service will be kicked and bantered about as is the municipal official who, be he true or be he false, is carried away by partisan policies or in a response to the cry of the demagogue to "sweep the rascals out."

Asking for increased government control, should not the American people premise this request on an insistent demand for increased intelligence concerning the management of business affairs? Until adequate provision has been made for such intelligence, increased government control through public ownership and operation may not safely be undertaken.